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S U B M I S S I O N

to:

THE
ONTARIO
COMMITTEE
ON
TAXATION

*

by the

Ontario Executive
Committee,

COMMUNIST PARTY OF CANADA

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December 4, 1963

A DEMOCRATIC TAX SYSTEM
BASED UPON ABILITY TO PAY

Submission to the Ontario Committee on Taxation by the Ontario Executive Committee, Communist Party of Canada.

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Mr. Chairman and Members of the Committee:

The establishment of this Committee by the Ontario Legislature is to be welcomed, particularly at the time when a Royal Commission is engaged in studying the broader aspects of taxation for all of Canada and specifically related to matters coming under federal jurisdiction.

The rapid growth of our economic and social structure places evergrowing demands upon provincial and municipal governments. These growing demands and needs have far outgrown the sources of tax revenue available to these levels of government under the provisions of the British North America Act adopted in 1867, when the situation was radically different.

During the last 15 years alone, United States monopoly interests have invested billions here to extend their hold on industry and our natural resources. At least 40 per cent or more of these investments have come from profits made here. These same monopoly interests now try to "regulate" the economy in their own interests. For this purpose they have taken over government and influence its policy. State intervention takes place in all aspects of economic life. Monopoly and the capitalist state have merged into what is called state-monopoly capitalism.

State-monopoly capitalism means that by control of government the big monopolies grab hold of the nerve centers of productive activity and wealth accumulation -- property relations, the market, investment and credit.

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In this way the total social capital is commandeered by the capitalist state to serve the interests of the monopolies, at the expense of the non-monopolized sectors of the economy. All economic life is subordinated to the interests of the big monopolies.

State-monopoly policy is aimed at shifting the economic burdens and difficulties from the monopolies and unto the backs of working people, small producers and little businessmen. This is the explanation for consumer sales taxes, higher prices and every other means by which the rich are fleecing and robbing the people of average and poor incomes.

To provide a democratic system of taxation that will correct the great disproportion between social and economic responsibilities, and the flow of revenue to governments to meet present as well as future needs, requires, in the final analysis, a new Canadian constitution that will reflect the economic and political realities in our country.

This basic need has long been reflected in various more or less deep-going studies of federal-provincial relations, as well as a federally appointed Royal Commission on Canada's Economic Prospects.

To all of these studies our party has submitted its considered views, starting with a detailed and well documented presentation to the Rowell-Sirois Royal Commission in the middle thirties.

For our present purposes it may be helpful to quote from our party's submission to the federally appointed Royal Commission on Taxation last April. After stating that we have failed to keep our constitutional distribution of taxing powers abreast of the country's development and the resulting demands upon governments, we proceed to state the following:

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"Steps to bring about far reaching changes in the distribution of fiscal responsibility as between levels of government need not and indeed cannot await the drafting of a new constitution," but that "it is possible now to negotiate mutually satisfactory agreements between federal and provincial governments which would provide for the assumption by the federal government of many expenditures now falling upon provinces and municipalities". Furthermore, we stated:

"Far greater progress could have been made in these directions if it had not been for the federal government's heavy commitments to both unnecessary and wasteful expenditures."

Some Reasons Why Drastic Changes are Urgently Required

1. There is no argument about the need for taxation as a means to channel needed revenues to governments. Such revenues are urgently required to meet budgets that must grow with economic development and the needs of the people. It is the people's needs, and; more particularly, governmental recognition of these needs; that are of utmost importance if we are to maintain a healthy and dynamic community.

The flow of tax revenue must, however, reflect more precisely the growing productive activity and wealth accumulation than is now the case here in Ontario, not to speak of Canada as a whole.

In a system of private ownership and private wealth accumulation we have arrived at a stage where governments must assume responsibility for measures aimed to redistribute part of the increased wealth derived from productive activity, to increase buying power, expand social capital and, to some degree at least, influence the level of economic activity.

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Presently we have a very harmful tendency to look for needed revenues by placing heavier burdens of taxation upon consumers in the middle and low income brackets. Presented to the public as plans to "broaden the tax base" such schemes will in reality serve to restrict mass public demand for goods and services and inhibit economic growth. The plain facts are that economic growth is not sufficiently reflected in a rising standard of living among lower income groups.

To be democratic no tax system must interfere with a certain basic standard of life for everyone. This means that any tax which tends to reduce the standard of living of a taxpayer below a certain minimum level, contradicts the principle of ability to pay and is regressive.

2. Municipal governments are not the most appropriate taxing units to gather funds for such purposes, for example; as, education, health, and social welfare. The reason is that privately-owned and productive capital in natural resources, industry and finance, is today highly concentrated in the hands of corporate interests operating on a national and international level. The scattered economic structure based upon free local enterprise has been replaced by huge monopolies, many of them owned and controlled from abroad. In this situation it is quite impossible for a small municipality to deal adequately with the effects of a decline in a national industry. It may well be that the decline which reduces a given municipality to a ghost town is but the obverse side of a change which has increased substantially the wealth and income of another community. In Ontario we have many examples of such a situation. The modern ghost town of Elliot Lake is a monument to a decline in the market for uranium. Other places have suffered as a

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result of "run-away" plants from one locality to another. But the system of local government taxation is still confined to real estate based on old economic relationships. At the same time, responsibility for social expenditures are heaped on municipalities, expenditures which bear no relationship to residential real estate, or the narrow confines of a municipalities taxing powers and consequently its ability to pay. Time and again, big industries seek various ways and means to avoid paying their share of real estate taxation that should properly be paid by them to a municiplaity. There are many such examples too, in the province of Ontario. One striking example is the amalgamation of surrounding townships with the city of Sudbury to produce a larger Sudbury, but excluding Copper Cliff and the extensive INCO property there, including a huge smelter. This in spite of the fact that most of Inco's employees live in Sudbury and enjoy its local services for which the miners pay dearly in the form of high residential assessments and taxes.

The federal Income Tax Act generously permits corporations to deduct the total municipal tax from the corporation's income. In this way a corporation saves, on the average, about 50% of their municipal taxes. A home-owner is not given this privilege. Ontario municipalities have long demanded that the privilege of deducting municipal taxes from income tax returns be extended to homeowners. A lower tax rate on home-owners' properties than the civic rate on industrial and commercial properties is both justified and necessary, and will assist tenants, since rents inevitably reflect the level of municipal taxation. With regards to business taxes, a consistent policy based on ability to pay would call for a graduated form of business tax.

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The main problem is that a few people appropriate the profits from expanding production and increasing urbanization, while the costs of necessary social and civic services falls upon the many.

3. Canada is a country with marked disparity in resources, varied levels of economic development and accumulation of wealth in the various provinces. Ontario with roughly one-third of Canada's population is the wealthiest province and accounts for roughly one-half of Federal revenues.

For us in Ontario it is necessary to recognize that there are certain tax-supported services which can be operated most effectively by the central government. These are services which must be available to every Canadian on completely equal terms, services which are essential to Canada's wellbeing and democratic progress. These facts are already recognized in the case of family allowances, old age pensions, and unemployment insurance. The necessity for a comprehensive national plan for free medical service, and a guarantee that every Canadian child shall enjoy equal, full and untrammelled opportunity for primary and secondary education, is equally pressing.

As already stated by our Party's National Executive Committee in its brief to the federal Royal Commission on Taxation:

"Measures such as these, or transfers of revenue to make them possible do not contradict the reality of the national control of French Canada by its people, still less do they contradict the principle of "provincial rights" in conditions of today."

4. The growing tendency to shift the tax burden to those least able to pay cannot but have a detrimental effect on our economy.

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from 1952-62 for NP (as quoted by DBS) increased by 73%. 37.2% of this increase took place in the 1st half of the decade, while the second half of the decade shows an increase of only 26.6%. This points to declining rate of growth in our economy.

At the same time there has been a great increase in consumer debt, which indicates much spending on the basis of future earnings.

There has been a general increase in taxation of the consumers which, when taken together with the lack of tax exemptions on low incomes and generally rising prices, reduces the buying power of wages and salaries and hence the living standard of consumers. The effect of this has been partially obscured by consumer credits and borrowings. But in the long run this shifting of the burden to the masses of consumers in the low income groups will have its retarding effect on the economy.

The province of Ontario should counteract this tendency by instituting a new direction of policy in its relations with the municipalities, and work for new agreements in Federal-Provincial relations with respect to revenues and social expenditures that would take into account the need for a more democratic and realistic tax policy.

5. Methods used in assessing taxpayers become important in relation to a democratic tax policy.

The income tax due from wage and salary earners are assessed, levied and collected with exactitude in advance at the source. A somewhat similar situation prevails with respect to property taxes at the municipal level, which are often subject to a rebate if paid in advance and a fine if overdue. The result being that he who can afford to pay in advance gains some advantage over the poor homeowner, who is penalized. It should be only too clear to anyone that any tax, be it for income or property, imposed on an individual with an income below a certain standard becomes a hardship that cannot be overcome by material inducement which becomes transformed into a penalty.

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At the other end of the pole assessments and taxes on high incomes and profits are oftentimes open to widespread evasion.

Increase in real worth which is not in the form of wages or salaries or declared income is exempted from taxation.

Foreign owners withdrawing earnings from this country have hitherto enjoyed certain advantages over Canadian residents. Some Canadians with high incomes have in fact established official residence abroad in order to secure similar advantages.

A whole system of so-called "tax incentives" to corporations becomes means by which to circumvent and undermine a democratic tax policy and to increase profits. Sometimes such expedients help to extend foreign control of Canadian resources and industry. The means by which the International Nickel Company -- (of Canada, but acutally owned and controlled in the U.S.A.) -- has used profits made in Ontario to extend tax free assets and operations in Manitoba, is a good example of this kind of thing.

If governments are convinced that an institution or an individual who may be assessed for certain income but whom governments feel deserving of special financial treatment, such special consideration should be in the form of a grant or rebate. Such grant or rebate should in all cases be paid after the income tax has been collected.

OMIT

Money paid out by corporations in the form of advertising expenditures should not be deductible for purposes of payment of corporation income tax.

It is our view that big corporations include advertising in cost to the consumer and then seek to charge double by means of another loophole to evade

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taxes on profit already made and realized. The present system allows advertising to be a loophole for avoiding taxes. Since advertising is designed to expand business for the owners, it is an expense that should properly be borne by the owners, not passed on to consumers in the prices of products, or passed on to taxpayers generally through escape of taxation on profits used for advertising.

Capital cost allowances contingent upon expansion of capital assets have not stopped the tendency to decline, let alone increase capital formation in Canada, taken as a whole since 1957.

The obvious incentive to capital formation and expansion is the market and how additional production potential can be absorbed.

A member of the research staff of the Royal Commission on Taxation has stated that investment incentives distort the income measurements of a firm and disrupt financial markets. This distortion, in the opinion of Mr. Roger Mendels, carries all the way to Canada's national accounts, where the estimates of capital cost allowances and corporate profits are based on taxation statistics. The increased amount of funds generated internally because of depreciation tax benefits make a firm largely independent of outside financial sources. Says Mr. Mendels: "A large part of the foreign investment in Canada is concentrated in industries which have been growing at a faster rate than the economy as a whole. Many of the subsidiaries of foreign companies have simply seen no need and consequently no reason to sell securities in Canada."

Actually what Mr. Mendels does not say, is even more significant than what he does say, namely, that government tax policy is such as to perpetuate and encourage foreign ownership of Canadian industry and

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resources. Nowhere is this better exemplified than in Ontario's basic industries and raw material extraction industries.

Incentive depreciation is also a discriminatory fiscal measure because it assists only those established and diversified firms that have enough taxable income against which to charge the excess deduction.

Mr. Mendels said he did not feel that depreciation allowances are a suitable method to encourage investment. They are costly to the national treasury and their true value as a stimulant is difficult to measure. He has also suggested that such allowances have an unstabilizing effect on the economy and can actually play a perverse role over the business cycle.

We are of the firm opinion that those in lower income brackets should be relieved from the burden they now unjustly bear by some such measures as the following:

a) Increase the basic exemption from income tax to $2,500.00 single and $5,000.00 for married persons. (Figure amended since our submission to Royal Commission on Taxation last May.)

b) Allow university fees to be deducted from taxable income.

c) Allow the cost of special schooling or care of children who are mentally or physically retarded as deductions from taxable income.

d) Allow the cost of child care to mothers who work full time to be deducted before her wages are assessed for income tax.

e) Allow as deductible from taxable income, taxes paid upon homes assessed up to $5,000 when such homes are occupied by their owners.

The province of Ontario should make strong recommendations to the federal government on such measures

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as come within the sphere of federal jurisdiction in the collection of income tax.

This also applies to excise taxation which we feel strongly should be confined to "value added" at each stage of production and distribution, from the manufacturer's price to the final sale to the consumer. At present such taxes are duplicated at each stage and consumers find themselves paying taxes on the top of taxes already paid, including taxes on profits at each turnover.

At the provincial level, steps should be taken to abolish the sales tax upon consumer goods in Ontario. This is an inequitable tax, which shifts the burden of taxation to the mass of consumers, including the poor people who live at or below the marginal income, including those on public welfare.

Old Age Security and Service Pensions

At the present time, old age pensions are provided for by the federal government. Despite increases from time to time since such pensions were started in 1927, they are still far from adequate.

The provinces, each in their own way, subsidize the basic federal pension. In Ontario this amount has varied over the years. In fact, at times when the federal government increased basic pensions, the Ontario government reduced its supplementary allowance, leaving the pensioners with little or no benefit. In case of the latest $10 per month federal government increase in old age pensions, landlords have taken much of it. Some of the institutions for elderly people under provincial government control and supervision, who allow the person concerned from 10 to 15 per cent cash allowance for personal spending purposes each month, have taken the rest to pay for board and lodging.

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Canada needs a system of security for people in retirement. The various private pensions schemes in existence help those who are in the happy position to have such coverage. But what about the majority? What about portability of industrial pensions?

The proposed funded pension scheme in Ontario does not meet the requirements. It excludes nearly one-half of the labor force, and people lacking the means to provide for retirement. Its benefits are far below a reasonable level.

The federal pension scheme now under discussion is a much superior plan. Together with a Quebec pension plan, and with inter-provincial portability, as well as provisions for incorporation of private pension plans where such exist, on a mutually satisfactory basis, the Canada pension plan will provide national coverage.

Ontario should speed up agreement on the Canada pension plan and help to provide an immediate retirement pension of $100 per month which together with the present basic pension of $75 per month would make up an immediate old age security service pension of $175 per month.

Financial Position of The Municipalities Is Unbearable

a) The debts of the 3,100 municipalities in Canada, of which nearly one-third are within Ontario, has doubled between 1956 and 1962 and now stands at $5 billion.

b) Responsibilities and expenditures are growing rapidly while the municipal share of tax revenues collected is declining.

c) The 400 million dollars federal loan fund is a drop in the bucket of municipal requirements.

d) Almost 40 percent of tax revenue collected at the municipal level in urban areas of Ontario goes for education.

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e) On a per pupil basis, Ontario spends $307 annually, while B.C. spends $372 per pupil annually and Alberta $378 per pupil. Consequently we are not in the highest bracket of spending for educational purposes in Ontario.

f) Ontario municipalities carry a larger share of welfare costs than do municipalities in other parts of Canada.

Only Way Is to Reallocate Responsibilities and Distribution of Revenues Between Federal, Provincial and Municipal Governments.

The main reallocations should come in three main areas of expenditures of great and growing concern to local governments. These three areas of responsibility are: a) education; b) health; c) social welfare.

a) Education

The conditions which render it necessary to make our educational system available to all regardless of means are radically different from the considerations which prevailed a hundred years ago. Municipalities cannot provide a level of education which corresponds with present requirements and the burden on home owners is becoming far too heavy to carry. Because of its inseparable relationship to the interests of Canada as a whole, the Communist Party contends that the cost should become basically a federal responsibility, paid for out of the tax revenue of the federal government.

At the same time we hold, that the administration of education must continue to be the responsibility of the provincial governments, with the federal government making the necessary transfer payments as a statutory and irrevocable right.

The present provincial grant system to municipalities differ widely between provinces, and between municipalities within each province.

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The Ontario Foundation Tax Plan, 1964, which is designed for flexibility and ability to adapt to varying conditions will operate for five years from 1964. The plan is a step forward toward greater equality and uniformity through its three sections, the Tax Relief Grant, the Stimulation Grants and the Equalization Grants. The latter is divided in turn into a Corporate Tax Adjustment Grant for all Elementary Schools, which is an attempt to meet the charges of unequal treatment for separate schools, a recognized Extraordinary Expenditure Grant to help poorer school sections meet debt charges and capital outlays from current funds, and a basic School Tax Equalization Grant.

However well intentioned this rather complicated grant structure may be, and however carefully the provincial grants may be distributed and re-distributed, the fact remains that the burden for educational costs remain with the local taxpayer far beyond his ability to pay.

Thus in 1960, local government taxation for public schools at the elementary level amounted to 252 million dollars, plus $317,000 contribution to higher education. This compared with a total provincial grant to elementary school costs of $189.4 million, six million to post-secondary vocational schools, four million to teacher training and $36 million to higher education, making a total of $235.6 million.

The distribution between all three levels of government for educational purposes in 1960 by percentages was as follows:

Taxes	Elementary Schools	Post Secondary Vocational	Teacher Training	Higher Education	Total
Municipal	51.7%			.2%	43.6%
Provincial	43.7%	80.9%	100%	66.6%	48.1%
Federal	4.6%	19.1%		33.2%	8.3%

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As long ago as 1955, and again in 1960 in a letter to the Federal-Provincial conference in July of that year, our party proposed that the Federal government should, without prejudice to any existing arrangements entered into to meet other specific needs:

"....transfer annually to each provincial government, as part of that government's provincial revenues, an amount equal to the cost of elementary education, based upon the total number of children of elementary school age in the province.

"This is the only democratic method of dealing with the crisis in education. First, this method removes the intolerable burden of education taxes on the home owners, and permits municipalities to develop community services. Second, to pay for elementary education out of income and corporation profits taxes is the most democratic method, because it approaches educational costs from the standpoint of national need and ability to pay."

b) Health

The Communist Party in its brief to the Royal Commission on Taxation stated that it advocates a comprehensive national health plan, 80 percent of the cost to be assumed by the federal government out of its general revenues. Medical and hospital services should not be treated any longer as though they were the responsibility of the municipalities.

From time to time since the hospital insurance scheme went into operation in Ontario at the beginning of 1959, there have been efforts made to increase the insurance premiums to the individual subscribers. On October 26th, last, the Toronto Telegram stated:

"Mushrooming costs of Ontario's hospital insurance

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scheme have convinced Government officials that a hefty boost in premiums can no longer be avoided."

But this is far from the case. From the very beginning the Ontario government has failed to adhere to the original plan of dividing the costs of hospital insurance equally between the public, the Ontario government and the federal government.

Prior to 1959, the cost of mental and tubercular institutions came out of general provincial revenues. Since 1959, some $16.2 million of Hospital Insurance premiums have been diverted to the unrelated costs of mental and tubercular institutions maintenance. The result is that instead of a published surplus at the end of 1962 of 0.4 million dollars, there was in fact an actual surplus of $16.6 million.

As a result of this transfer of costs the average contribution paid to the hospital insurance fund by the province of Ontario since 1959 has been 15 percent instead of one-third. In round figures the various contributions stand as follows for the four years: from 1959 to 1962 inclusive:

Insurance Premiums	$339.5 million
Federal Gov. contribution	$374.4 million
Ont. Govt. Contribution	$125.6 million

These figures have been worked out and reproduced from the Ontario Hospital Commission's annual report by the research department of the United Electrical, Radio and Machine Workers Union, which published them in its November, 1963, Research Bulletin, Volume 6, No. 5. From this same bulletin we take the liberty of quoting the following:

"As for the alleged 'mushrooming costs', here is an analysis of this aspect of 1962 operations, derived from the recently released annual report of the

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Commission. In 1962, the insured hospital service expense was increased in four ways:

1. By including emergency follow-up service in fracture cases.
2. By providing optional out-patient service
3. By 1.8% more hospital admissions whose average hospital stay was 4.2% longer.
4. By increased costs of hospital service per day.

The overall result was an increase of $29.6 millions or 13.4 per cent in costs. If Ontario had paid its one-third share of the total costs in 1962, the additional revenue (over what Ontario did contribute) would have been $35.3 millions -- far more than sufficient to cover the 1962 increase in costs."

The obvious conclusion one must draw from the above facts are that there is indeed no case for increased hospital insurance premiums.

The desire to increase the flat premiums to subscribers is a move to shift costs from general tax revenue to individual contributors paying for a special service. To include expenditures for mental and tubercular institutions as a contribution to general hospital insurance is a move away from democratic tax policy. It is another example of a desire to shift the costs of social services from those who are best able to pay to the people of average and sub-standard income.

An all-inclusive National Health Insurance plan, paid in full from federal revenues and administered by the provinces, is long overdue.

Pending such, the province should adopt a comprehensive medicare plan along the lines of the plan now in existence in the province of Saskatchewan.

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c) Social Welfare

Public welfare costs, such as relief and care for indigents should be taken away from municipal responsibility. So should the statutory obligations imposed on municipalities for maintaining wards of Children's Aid Societies.

Care of citizens who, for whatever reason, are unable to work or collect unemployment benefits should not be the responsibility of the municipalities.

Responsibility for the cost of social services should be reallocated by relating present day needs to the change in the distribution of industry and population.

Efforts should be made to achieve a basic minimum level for essential provincial services through the means of federal-provincial agreement.

Reallocation of responsibilities will provide relief to the provinces and municipalities and will enable them to assume more responsibility for needed public works, urban renewal and development, plus facilities for urban transportation.

The initial moves to provide loans to municipal governments is a move in the right direction. Provision of low interest loans will free local governments from the need to obtain loans from private sources at high cost. Frequently in the recent past such loans have been secured abroad in the U.S.A. where the slightest fluctuation in currency exchange rates can add millions to costs, as our experience shows.

The importance of debt charges in provincial and municipal borrowing is clearly shown by the following figures showing such debt charges in the province of Ontario in relation to social welfare expenditures a decade ago and today:

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	1953	1963	in millions of dollars
Social welfare expenditure	$21.5	$60.7	
Debt Charges	$25.1	$60.9	

These figures are also interesting from another point of view, namely that the bond holders collect more in interest than what we actually spend on public welfare in this province.

Further Steps to Assist Municipalities in Ontario

1. The partial graded exemptions on homes assessed below $4,000 for taxation purposes in Toronto and New Toronto should be extended to owner-occupied homes assessed to $5,000 and applied over the whole province.
2. The exemptions with respect to property taxes at the municipal level for property owned by senior governments and the Ontario Hydro should be done away with. The practice of paying certain sums in lieu of municipal taxes is not satisfactory.
3. Revenue obtained by the province from taxes on fuel oil and gasoline ought to be shared with the municipalities.
4. The practice of giving so-called "matching" grants is discriminatory and ought to be discontinued.
5. Local governments should be responsible only for expenditures that relate to property, such as sewers, lighting, street improvements, police and fire protection, parks and recreational facilities.

The Traffic Problem

Point 3 above, with respect to provincial sharing of revenue from fuel oil taxes, is of great importance now in view of the great and growing urban traffic problem, the heavy motor traffic brought by express-ways into the centers of heavy population and what it does

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to streets and other traffic.

In Metropolitan Toronto, the rapid growth of population and sprawling urban development has been taken advantage of by speculative interests in real estate. This has quickly added to the cost of civic services. It has also brought about a serious problem in providing for public transit. The immense outlays for capital expansion in such undertakings as subways and bus lines, cannot be met without borrowing huge sums of money which add to the public debt. Amortization and interest on this debt has brought about a crisis in public transportation which cannot be successfully met by the simple expedient of increasing fares.

What is required here is amalgamation and streamlining of these public transportation facilities for the entire metropolitan areas, with a single fare structure and with the provincial government sharing the capital cost of such big investments as subways, plus cost of reorganization of services resulting from amalgamation. In other words, we propose that costs for democratic amalgamation of these services be borne completely by the provincial government and that capital costs of subway construction be shared in such a way that debt charges against the transit system be reduced by at least one-half, and that amortization of loan capital be over an extended period to ease the pressure upon the publicly owned transit system.

Added Sources of Provincial Revenues

1. Federal-provincial tax sharing and re-allocation of responsibilities for certain expenditures in the way we have referred to above, would radically alter the relationships that now exist between sources of revenue and cost of meeting essential needs at the three levels of government.

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The need for this is shown by the following figu es from the calendar year of 1962:

	Federal Gov't	Provincial Gov't	Municipal Gov'ts
Total Tax Revenue	$6,907,000,000	$3,285,000,000	$1,976,000,000
Total Expenditures	$6,245,000,000	$3,235,000,000	$3,458,000,000
Surplus or Deficit	+ 662,000,000	+ 50,000,000	-1,482,000,000

As shown by the National Accounts of Income and Expenditures, published by the D.B.S. the three levels of government did in 1962 achieve the following results after transferring revenue from one level to another.

Federal Government Deficit $474 million

Provincial Government Surplus $111 million

Municipal Governments Deficit $407 million

The expenditures on goods and services exceeded 3 billion dollars at both the federal and municipal level, and $1.6 billion by provincial governments. This means that much less than one half of federal expenditures were made directly on goods and services, while more than one half were spent in other ways, including the huge amounts on arms expenditures, which could be much reduced.

By obtaining from the federal government a sum equal to the cost of elementary education for remittance to local school boards, the province would be relieved of a big share of current expenditures.

A more equitable distribution of the cost of health and public welfare, would also relieve the province of much of its present expenditures. in this direction.

By taking the total cost of these three basic services from the local governments, the crisis of financing at that level would be removed.

2. The main source of tax revenue should be from high individual incomes and accumulated wealth which exceed socially necessary spending.

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3. To equalize the incidence of the burden of taxation, there should be instituted an annual tax on capital gains, both realized and unrealized, which are enjoyed by every person and every corporation that invests or engages in productive activities for gain in this country. A certain basic exemption should be used to exclude small property transactions in homes and businesses, occupied and used exclusively by the owners themselves.

Such a tax would be most effective when levied on increases in the market value of securities held by each individual, each corporation, each institution. It should include within its scope every investor who resides outside of Canada, and the owners of foreign-owned corporations.

It should be made compulsory for all individuals, corporations and institutions to divulge all holdings of fixed and liquid holdings, and increased worth.

What we are proposing here is a just taxation of substantial sources of wealth which now go relatively tax free. The argument that such a tax will discourage investment does not stand up to experience in practice.

It was precisely during the war years when the economy operated at full capacity and despite heavy taxes, that Canada's economy grew faster than ever before. The main reason was that demand was always ahead of supply and industrial capacity. The most harmful tax policy, and one which inhibits both economic growth and investment, is a shifting of the tax burden on the masses of consumers which serves to reduce effective public demand and thereby production.

The institution of a capital gains tax would be a much more democratic act than the adoption of the consumer sales tax, which should be abolished.

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4. The Communist Party takes the position that the principle implied in the Estates Taxes is correct. But it must be stated that the manner in which the tax has been collected until now is,in effect, a contradiction of this correct principle.

First of all, the great accumulations of wealth which exist today are held by corporations, and therefore not accessible to succession duties.

Secondly, individuals of considerable means are impelled to incorporate their estate or even to distribute it among their prospective heirs so as to avoid the tax. The result is that the proportion of the capital invested in Canada which escapes the succession duties tax is so large that returns from the tax bear little relationship to the magnitude of the increase in Canadian wealth from generation to generation. This makes the present application of the tax discriminatory.

5. Another source of added revenue in Ontario is our natural resources. At the present time non-tax revenue includes privileges, licences and permits, a great part of it having to do with our forest and mineral resources. The income from these specific items in 1963 will come to 149,030,000 dollars. Altogether the non-tax sources account for 21 per cent of provincial revenue as compared to 79 per cent from direct taxes.

This compares to non-tax revenues of 63 per cent in Alberta and 32 per cent from direct tax sources.

It is clear that Ontario does not receive more than a fraction of the potential income it could and should rightly receive from its abundant natural resources.

It is safe to say that Ontario resources are in the grip of foreign monopolies to such an extent that the economic life of large areas of the province depend upon the export of raw material. The prices of these

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mineral and forest resources are extremely low in comparison to imported manufactures.

But the revenue from such resources is even more pitiful, in fact so small, that when costs of roads, protection, regeneration of renewable resources and research are taken into account, the government revenue collected is not sufficient to cover the expenditures which in essence means that we subsidize the alienation of our natural wealth and its export.

If we compare the situation in Ontario to that of Alberta we find that direct debt per capita in Ontario has <u>increased</u> from $169 in 1952 to $277 in 1961, while direct per capita debt in Alberta had <u>decreased</u> from $108 in 1952 to $28 in 1961.

The main reason for this difference is the considerable royalties collected by the Alberta government on such resources as crude oil, natural gas, etc. whilst Ontario does not receive more than a fraction in comparison from users of our forests and mineral resources, who benefit from their use.

6. Ontario should take over telephone and natural gas distribution and operate these services as public utilities in a similar way as Ontario Hydro is presently operated.

To expand industry and manufacturing, develop basic industries in under-developed areas, and to facilitate economic planning, some existing industries and subsidiaries of foreign corporations should be nationalized and operated under public ownership. For this purpose and for the purpose of development of new industry in the province, Crown Corporations should be set up under government sponsorship similar to the Polymer Corporation at Sarnia.

Such developments, as the experience of the

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Polymer Corporation has clearly shown, could be a source of revenue to government as well as a boon to general economic development on a province-wide basis, particularly in under-developed regions of the province.

Summary and Conclusions

1. The development and growth of the economy has brought about many new needs and required expenditures which were not envisaged at the time of Confederation in 1867. Consequently present constitutional divisions of responsibility for expenditures and sources of revenue are no longer adequate.

2. At the same time it is our contention that changes that are necessary, and which we have argued for in this submission, can be brought about by mutual agreements between the various levels of government and pending the adoption of a new Constitution. Such necessary changes should have the overall aim of bringing about a more realistic relationship between federal-provincial and municipal governments with respect to revenue and expenditures on the basis of a democratic tax policy.

3. Our definition of a democratic tax policy is one which does not interfere with a certain basic standard of life for everyone. This means that any tax which tends to reduce the standard of living of a taxpayer below a certain minimum level, contradicts the principle of ability to pay and is regressive.

4. There is no argument about the need for taxation as a means to channel revenues to governments to meet increasing needs for various social requirements which only governments can provide. But the flow of tax revenue must reflect productive activity and natural accumulation of wealth, must not retard economic

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development by reducing buying power, but should aim to increase the flow of social capital and influence the level of economic activity.

5. In modern conditions of state-monopoly capitalism, municipalities are not the most appropriate taxing units to gather funds for such purposes, in particular, as education, health, and social welfare.

6. Under the guise of "broadening the tax base" there is a strong shifting of the tax burden from the big monopolistic corporations and the wealthy, down to those who are least able to pay. This has a detrimental effect on the economy and shows up in a declining rate of economic growth.

7. Incentives to industry are discriminatory in favor of the big monopolies. As part of government tax policy it perpetuates and encourages foreign ownership of our industry and resources by making subsidiaries of foreign corporations independent of outside financial sources. It is working people in lower and middle income brackets and small business which must be relieved of heavy tax burden.

8. To relieve the unbearable burden of responsibility now falling upon the municipalities, there must be a redistribution of responsibilities and revenue.

9. Municipalities should be relieved of all the costs for <u>education</u>, <u>health</u> and <u>social welfare</u>. These are the main areas where local governments can be relieved of heavy deficits and borrowing, and at the same time relieve the home owner of excessive taxation.

There are several other areas, such as transportation and tax rebates, by which the provincial government can assist the municipalities, as well.

10. The provincial government should be relieved of cost for elementary education and for a greater part of

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health and social welfare costs. Our proposal is that major portion of such expenditures should properly be charged to the federal government, and made uniform throughout the country.

11. To equalize the burden of taxation and make high individual incomes and accumulated wealth the main source of tax revenue, we propose a capital gains tax. This tax to be on capital gains, realized, as well as unrealized, and covering such capital gains made by every person and every corporation that invests and engages in productive activity for gains in the province. A certain basic exemption should be instituted to exclude small property transactions in homes and small businesses, occupied and used exclusively by the owners themselves. It should be levied on increases in the market value of securities held by each individual, each corporation, each institution. It should include investors who reside abroad and owners of foreign corporations.

12. By changing the principle of the collection of Succession Duties to correspond with the principle of a Capital Gains Tax, much added revenue could accrue to the province.

13. Ontario must secure more revenue from its abundant resources.

14. Finally, the development of industry and manufacturing,should include nationalization of certain utilities, such as telephone and natural gas distribution. New and diversified industrialization can be undertaken in many areas by nationalizing existing enterprises, particularly foreign-owned subsidiaries, and by establishment of Crown Corporations, which can be a source of added revenue.

15. The Consumer sales tax should be abolished.

All of which is respectfully submitted,

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